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SUBJECT: (Optional) Procedural Implementation of Budgetary Controls over Inventories of OTS and O/C Cognizant Material

FROM:

DIRECTOR OF LOGISTICS
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EXTENSION

NO.

DATE 12 July 1973

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TO: (Officer designation, room number, and building)

DATE

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. D/PPB
4 E 12

Chuck:

Although I realize that the "monkey in on your back", I'm sending on to you a paper prepared by my staff as a suggestion for procedural implementation of separate PPA accounts for OTS and agent commo equipment cognizant inventories. If agreeable with you, I suggest that your people get in touch with my budget officer, [redacted] and with the appropriate people in OTS and OC on this matter.

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/s/ Francis J. Van Dam

Francis J. Van Dam
Director of Logistics

(Reference: Memo for DD/P and DD/S fr Ex.Dir.-Comp., dated 26 July 1972, subject: The Management of Technical Equipment by TSD and O/C, para. 2.c.)

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PROCEDURAL IMPLEMENTATION OF
BUDGETARY CONTROLS OVER INVENTORIES
OF OTS AND O/C COGNIZANT MATERIAL

1. DEFINITIONS: As the basis for establishment and maintenance of budgetary controls over the cognizant inventories, the terms "cognizant items" and "separate accounts" are defined as:

a. The Agency's supply system presently identifies 1/ OTS cognizant and the O/C cognizant agent communications material inventories as:

Allocation 26: Office of Communications - Specified Clandestine Equipment

Allocation 29: Office of Communications - Clandestine Equipment Contingency

Allocation 61: TSD/DDO /OTS/DDS&T/ Materiel

Allocation 62: TSD /OTS/ / Special Equipment Held for No Cost Issue

For purpose of identifying the area for application of the new procedures, "cognizant items" will be defined as items appropriate to these four allocations.

b. The "separate accounts" for the cognizant inventories will be maintained to accumulate financial information, by each cognizant office, on acquisitions of material for these allocations. This will include acquisition of replenishment items, new items, and increases in inventory levels. Since no funds are obligated at the present time for direct acquisition of material for Allocations 29 and 62, the separate accounts now pertain exclusively to Allocations 26 and 61.

2. BUDGET CONTROL: The Executive Director-Comptroller has approved the policy of budgeting for inventory changes in OTS and O/C cognizant material. In the past it was assumed that use, or consumption, requirements (PRA) equated with acquisition requirements (PPA). In effect, \$1 budgeted for material use equalled \$1 available for material acquisition. The new policy recognizes the possibility of differences between the two requirements. It acknowledges the facts that in one year the Agency may have to invest more money

1/ Supply Division Instruction #45-67 "Standard Codes"
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in its inventories than the value of material which will be used and that in another year the value of the Agency's use requirements can exceed the amount required for acquisitions. These differences result from an increase in the levels of inventory to meet needs in future years or from introduction of new (and usually more costly) items.

5. PPA accounts are the records of obligation for inventory acquisitions and PRA accounts are the records of the value of material requisitioned from the inventory. To ensure a clear budget trail, the PPA and the PRA accounts must be compatible. With the establishment of separate PPA accounts for acquisitions of cognizant material, separate PRA accounts will also have to be established for the purpose of recording the value of the issues from the inventory. Only by use of the two accounts will we have the basis for identifying the amounts spent for inventory changes.

6. Examples of the interaction between the accounts are shown below:

Allotment Year #1 More funds are invested in inventory than the value of material issued from the inventory:

PPA (acquisitions)	\$1,000,000
PRA (issues)	<u>900,000</u>

Difference = amount invested for inventory increase	<u>100,000</u>
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Allotment Year #2 The value of material issued exceeds the amount of funds invested in the inventory:

PPA (acquisitions)	800,000
PRA (issues)	
Funded = PPA	\$800,000
Unfunded = issues in excess of PPA	<u>100,000</u>
	<u>900,000</u>

Difference = net decrease in inventory	<u>(100,000)</u>
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6. BUDGETARY ACCOUNTS: We anticipate that establishment and maintenance of a separate inventory procurement account for OTS cognizant material will present no complications. All requisitions for OTS cognizant inventory acquisitions

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can be uniquely identified as an acquisition for Allocation 61 and recorded as obligations against the separate inventory account for OTS cognizant material.

7. Maintenance of a separate account for the agent communication inventories, however, will be somewhat more complicated. Although a portion of the material acquired for Allocation 26 results from purchase action identical with the procedures described above for OTS cognizant material, another portion of the line items in Allocation 26 is the result of fabrication by the Communications Laboratory [redacted]

a. The Commo Lab submits requisitions for component parts (transistors, wire, capacitors, etc.) to [redacted] or to [redacted]. These items, which are in the inventory of the Agency, are issued against a Commo Lab FAN. Since these items are not for the operational use of the Commo Lab but rather are for the purpose of producing an inventory item, they are issued under unfunded PRA.

b. To avoid confusion between the normally accepted definition of "unfunded PRA", which implies an issue for operational use of material which will not be replaced in the inventory (e.g. conversion of [redacted] from Type I to Type II), we will use the phrase Inventory PRA to identify the issue of material to the Commo Lab for fabrication purposes.

c. The component parts, which lose their individual identity, are assembled by the Commo Lab (or under commercial contract) and the end item of agent communications equipment is placed in Allocation 26 at its capitalized value.

8. As is immediately evident from the above description, it would be almost impossible to capture in a single PPA account the amount of money the Agency invests in Allocation 26. Material requisitioned by the Commo Lab for purpose of fabrication is material procured for and held in other stock allocations. When the inventory managers of these other allocations place a stock replenishment requisition, they cite the general property procurement allotment since the amount of material required by the Commo Lab cannot be estimated with precision. Therefore, the only ready mechanism we have to identify the amounts the Agency will or has spent for use of the Commo Lab's fabrication

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program is the amount approved and the amount obligated against the Inventory PRA.

9. The "separate accounts" for agent communications cognizant material, therefore, must consist of two financial records; i.e. a PPA account for acquisition of material to be placed directly in Allocation 26 and an Inventory PRA account for requisition of material from the Agency's general inventories for fabrication of an end item to be placed in Allocation 26. The sum of the two accounts will equal the amount of funds the Agency invests in agent communications material. An amount equal to the Inventory PRA will be allotted as part of the general procurement account for use by the inventory managers to replenish stock items issued to the Commo Lab.

10. BUDGET EXECUTION: Two new FAN's will be established for the separate cognizant inventory accounts. The PPA to the Director of Logistics will consist of the following accounts:

4298-0000 General Property Procurement
4298-0002 Agent Communications Material
4298-0006 OTS Material

11. Separate PRA FAN's will be established to record inventory issues. In addition to FAN's for OTS and O/C PRA for cognizant inventory issues, a FAN (proposed number 4298-0002) will be established for the Commo Lab's Inventory PRA requirements.

12. OTS and O/C will advise OPPB of the amounts within their respective Operating Budgets for total OTS and O/C agent communications inventory requirements. Further, O/C will advise OPPB of the distribution of its inventory budget between amounts required for direct acquisition and amounts required for indirect acquisition (Inventory PRA).

13. OTS and O/C will advise OPPB of the amounts required for requisition of material from the cognizant inventories.

14. OPPB will issue the following allotment authorities to the Director of Logistics:

a. PPA for general property procurement
FAN 4298-0000

b. PPA for O/C cognizant agent communications inventory
FAN 4298-0002

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c. PPA for OTS cognizant inventory
FAN 4298-0006

15. OPPB will issue requisitioning authorities as follows:

a. To the Chief, OTS, PRA for cognizant inventory issues

b. To the Director of Communications, PRA for cognizant agent communications inventory issues

/ c. To the Director of Logistics, Inventory
/ PRA for issues from the general inventories of
material for use in the Commo Lab's fabrication
program.

16. The Office of Logistics will provide monthly to OPPB, OTS, and O/C a report on the status of the cognizant inventory accounts.

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NOTES:

PPA/PRA

- PARA 3a. Agree: 1000% - All burden for under encumbrance/over obligation would rest square on the component B&F office.
OL would still be concerned with trans costs (STA).
- 3b. Believe all stock procurements must pass through and be taken up in property system. We are not ready to have two systems for stocked items, i.e., OL Cog stock PPA; others - No.
- 3d. If PPA not used by O/C and OTS at time of procurement, materiel costed then and we're in a Type II mode - FPA reduced to money accountability - basically at a central control - property accountability at local level OC and OTS - I disagree with this suggestion.
- 3e(1) Problems are storage space and procurement lead-times, i.e., OJCS could not possibly store sufficient machine paper to ensure no outtages and accrue maximum savings by quantity buy.
- 7a. SPU is no more.
- (1) CONIF II - Only bilateral contracts
Only info - PO's, DO's, BPA's statistics can only be gotten from PPA/PRA records - Perhaps CONIF II could be expanded but time not on our side - Estimate 1-1/2 - 2 years to reprogram and implement.
- (2) Consider this minor - We can either do as Helen suggests or the more than likely avenue of closing ☐ and thereby eliminating the problem. (Of course, ☐ could always be limited to a stock location and resupply point.)
- (3) We would, of course, limit some flexibility, however, stock replenishment is now restricted to a percentage of total PPA (sic). The PPA break could be done at PPB with the stock % to OL/SD and the balance to remain funds and the component so notified. Certain ground rules/Supply discipline must be established for control.
- (4) OL/SD could help by distributing stock lists although they could never be real current.

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- (5) OL/SD is basically concerned with stock procurements. OL/B&F info is desirable but not absolute nor mandatory.
- (6) Follow-up by exception is the order of the day - A time limit could be established for all commitments. OL/PD would be responsible for their own house without follow-up jobs from OL/B&F.
- 7b(1) Also unnecessary - The philosophy of PRA was to control (record is better) property costs of the Agency. This premise has been breached to the extent that it is no longer valid in my opinion. In addition, property costs can be controlled by any combination of PRA and funds allotments.
- (2) Direct buys - funds could well be obligated at component level ILO PRA and liquidated in a similar fashion. Workload in OL/B&F would be reduced by the % of direct buys, that is, if stock still remained within.
- (3) As stated earlier, believe stock should be processed through PPA for Type I only. All others (direct) funds.
- (4) Agree - except in (b) where stock is funded separately - I am convinced that all Type I stock be PPA - This is the only way (at present and foreseeable future) that one element (OL) can maintain an accurate computerized data base that serves logistics managers efficiently in the management of materiel.

I think we can materially improve and at the same time reduce workload in the administration of the FPA system by extending the "funds for direct buy" to Headquarters components as we have done for overseas stations and bases. We have extended the "funds for materiel" to O/S Type II and III, and since all PIU's are now Type II's in Headquarters area, we can do the same at considerable advantage.

- 25X1 Q. If we retain ☐ and direct buys are processed as funds (T/A's), will this increase workload? Also, "direct buys" at Headquarters for O/S, will this increase workload in OL/B&F?